

Maximizing value for Airport Concessions

The Potential for US Airport Retail and Dining

OC&C / Newmark Perspectives

March 2023



US airport dining and retail has untapped potential, meeting a set of unmet consumer needs is the unlock

- There is **untapped potential** in US airport F&B and retail; across categories an average of 25-50% guests are not participating, and the US passenger experience (and therefore spend) is falling **behind international benchmarks**
- Overcoming **experiential and operational hurdles** could **unlock \$2.5bn** for the industry (+25% value), but also critically **future proof the sector** against growing segments of demand and shifts in traveller expectations
- There is a set of **priorities** for airports and operators to be working through to unlock this
 - Work to overcome the **psychological barriers caused by price**, tactically resetting expectations, while **delivering value** through service and offer
 - Get ready for the **future traveller**; Gen Z will reach ~30% of passengers by 2027 and they have different needs, wanting more **convenience, healthier grab'n'go, wellness**
 - Unlocking **wider access to brands**, to be able to deliver a more choiceful, curated, multi-brand experience, with more relevant **contemporary, fresh and everyday** brands
 - Partner to win on **digital**, enabling the customer journey to **catch up** to everyday retail
 - Drive active collaboration, with airports and operators open to **new ways of working** and maintaining **open dialogue** that puts the passenger experience at the center...
- Now is the time act. As dwell time will fall with tech-enabled efficiency through the airport journey, it is of increasing importance to have a proposition which draws customers in. Airports and Operators need to collaborate to achieve the common goal, which can be more easily unlocked with **greater willingness to invest and partnership together**

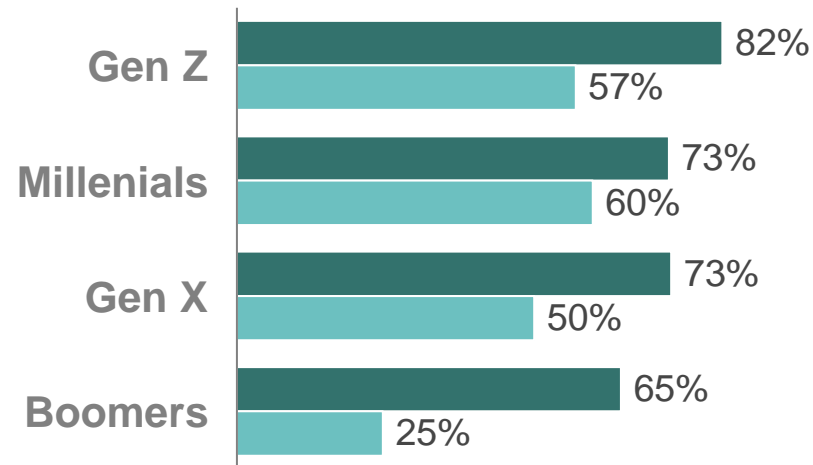




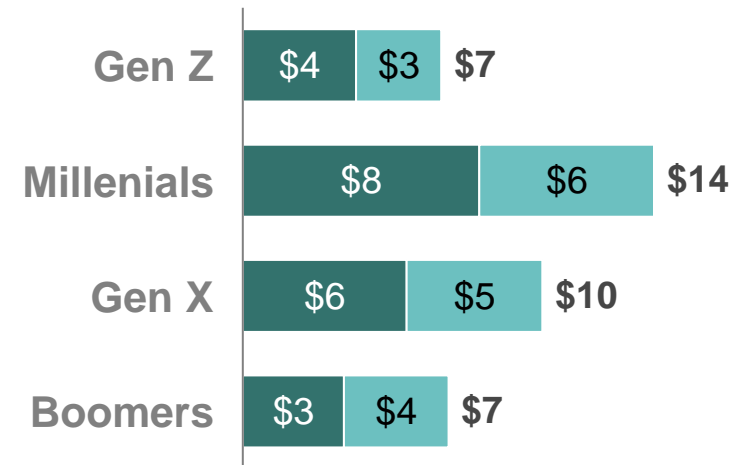
There is untapped potential for spend today

There is headroom to **drive up participation...** ...and **spend per passenger**

Participation on Last Airport Visit
(% US Passengers)



Spend on Last Airport Visit, \$



“The US offer lags a bit relative to global, but we’ve made a lot of progress over the last few years”

Paradies Lagardere

“It’s a big job to reposition yourself as a relevant retail destination...the potential is definitely there for US airports”

High Snobiety



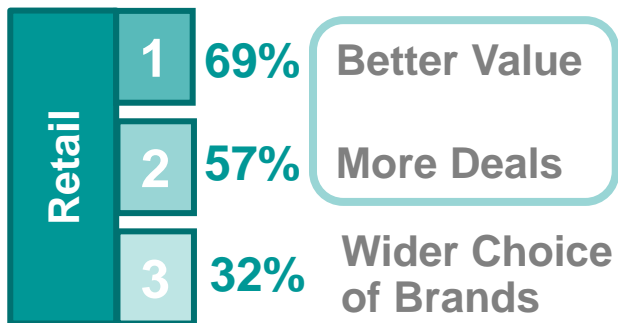
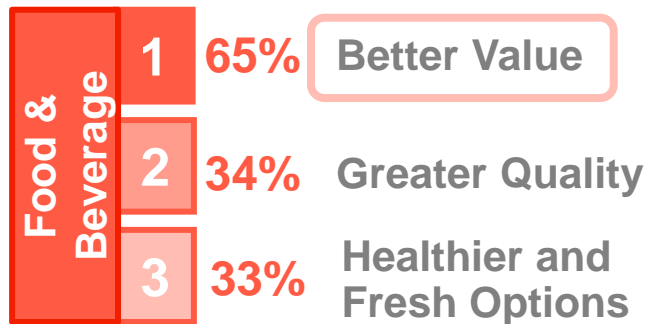
While a set of key hurdles are holding customers back...

The need for more **value reinforcement**

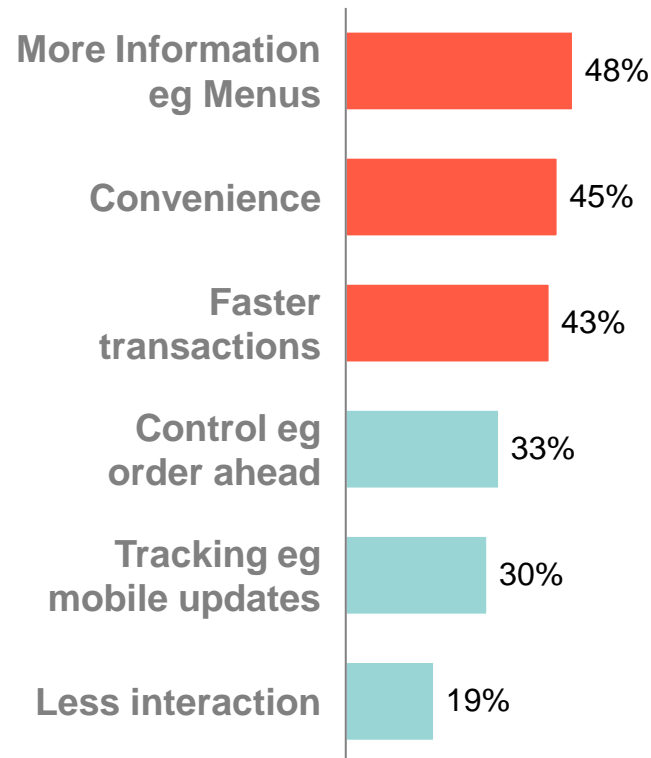
A yearning for **more convenience**

A desire for **fresher**, more **relevant** retail & F&B **brands**

How to Drive Engagement



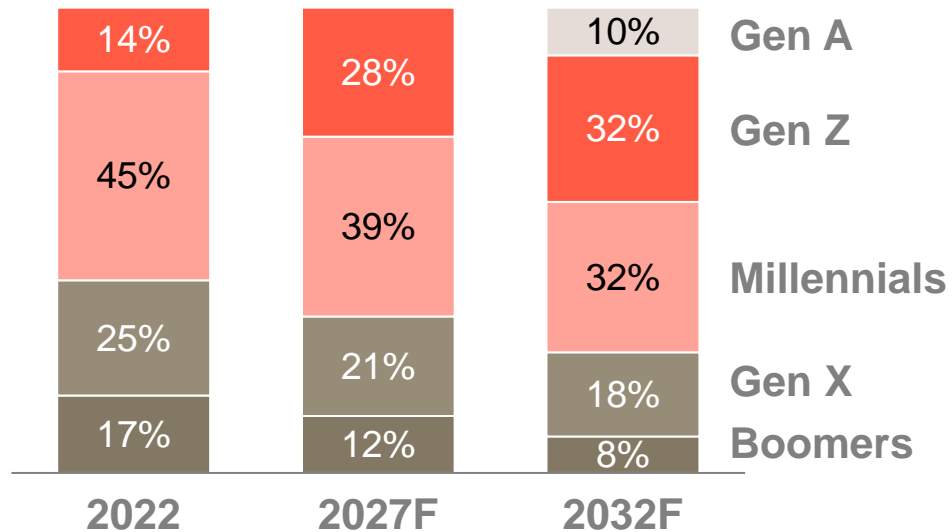
The Role for Tech



...we also need to acknowledge upcoming challenges



US Air Passengers Mix by Generation¹ (%)



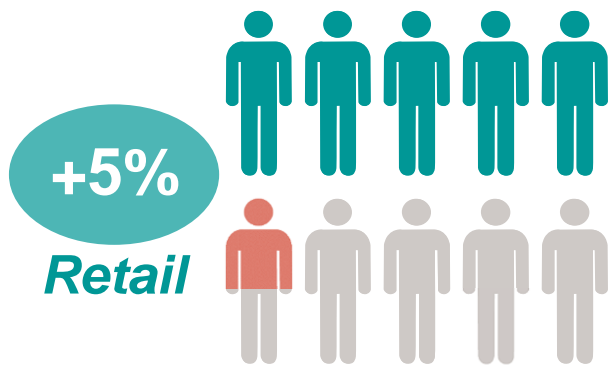
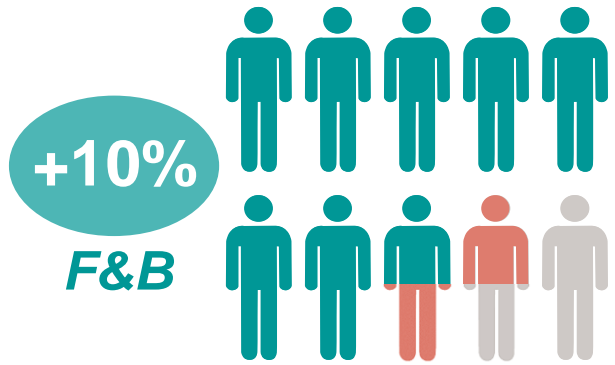
Bloomberg
The Airport of the Future Will Have No Check-In or Security Lines

THE POSSIBLE
Biometrics, facial recognition and scanning cameras are helping to make security invisible

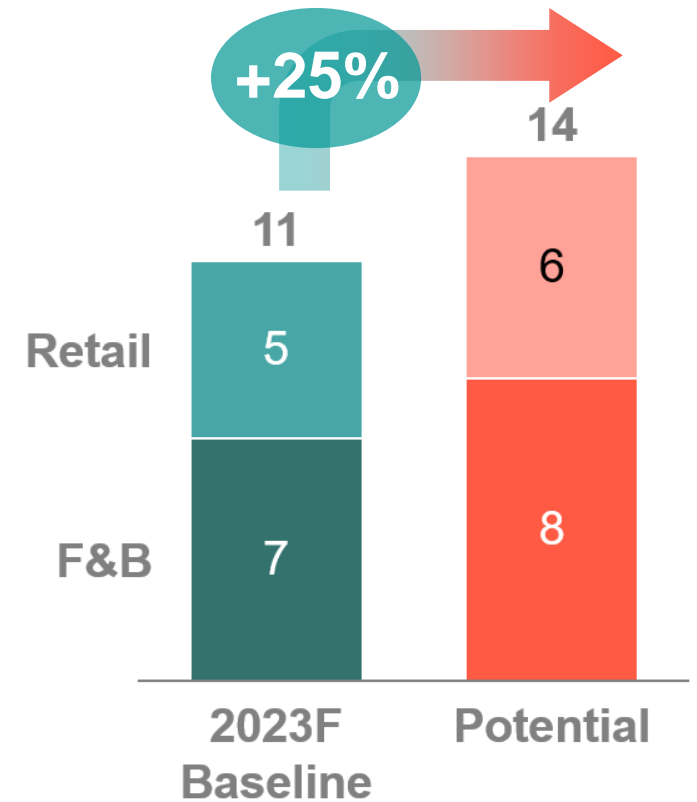
Travellers could check in virtually ...streamlining the in-airport process

SECURITY

Overcoming these hurdles could unlock +25% value...



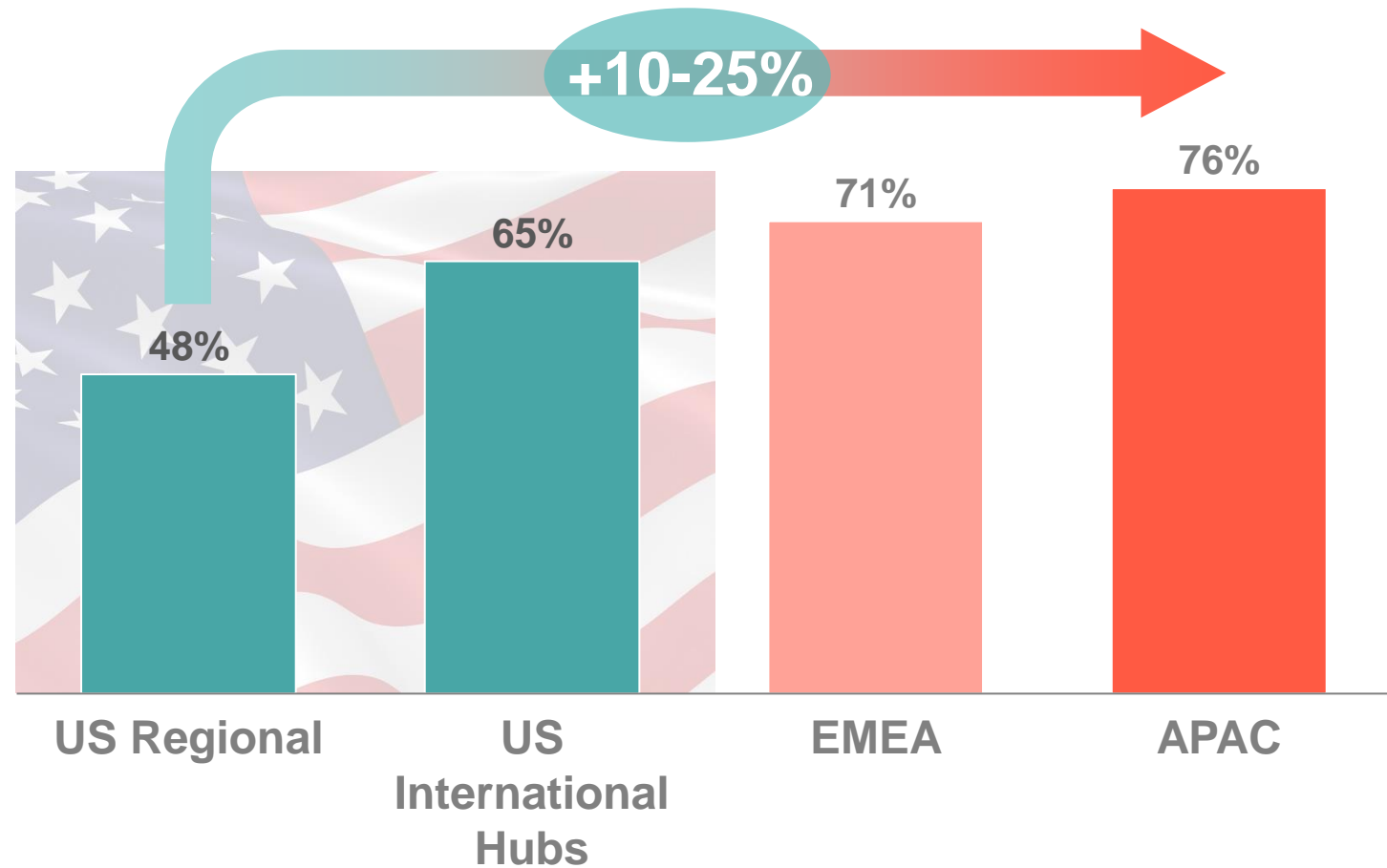
US Airport Travel Retail Market, \$bn



...while also driving up the experience



Satisfaction with Airport Retail & F&B
2022, % US Passengers



We see 5 critical levers that can help unlock this potential

1

Beat the psychological barriers



Reset guest expectations. Invest in key value indicators and deals on entry items, and deliver value through choice, experience and service to get customers in the door

2

Buckle up for the next-gen traveler



Shift to healthier grab'n'go dining, double down on convenience, offer more relevant and buzzworthy retail brands, while investing in accessible wellness services

3

Create a fresh and curated retail offer



Widen the pool of relevant and fresh brands by reducing entry hurdles, demonstrate the potential for showcasing, and explore the potential of capsule-ranges and one-stop-shops

4

Partner to win on Digital



Borrow from the digital economy and partner with experts to drive best-in-class digital experience and efficiency, while alleviating anxiety or uncertainty with more information

5

Coinvest in the common goal

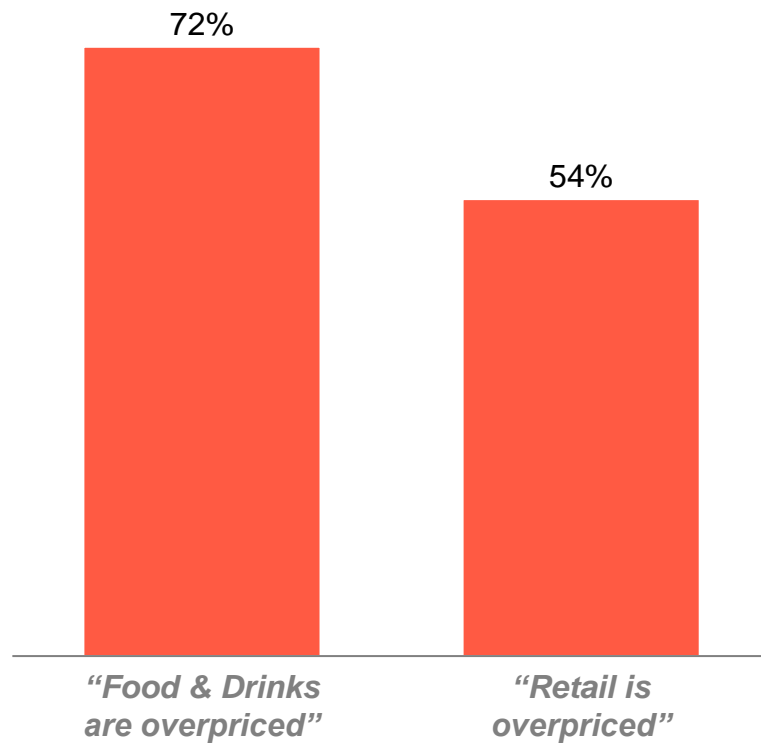


Increased collaboration and co-investment can help airports and operators achieve the joint vision for a better customer experience (and financial unlock), without needing to overhaul the working model

Poor value perception is the key issue plaguing airports – customers are deterred by both the perception and reality of high prices vs the street

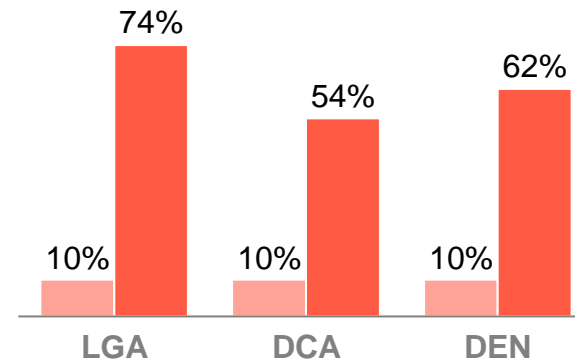
1

The majority of passengers view airports as ‘overpriced’...



This is despite the presence of ‘price-capping’ - which does **not appear to hold-up** in reality (due to the pressures of the financial model)

■ Airport Price Cap vs Street
■ Actual Airport Premium (benchmarked)¹



A vending machine company that typically retails for \$6.99 was looking at \$9.99 to ‘be whole’ in airports – 40% higher than street



1. Street prices are for exact matches or comparable products from a Walgreens or CVS in each city's central business district
2. Survey Questions: "To what extent do you agree with the following statement: the items were too expensive" / "What are the main reasons you do not shop in airports today?"
Source: OC&C Survey, Airport price benchmarking, Interviews, OC&C analysis

Overcome price barriers by investing in key value indicators and deliver value through choice and experience to get customers in the door

1



Reset guest expectations with better **entry pricing on key value items** (e.g., bottle of water) – to foster a halo effect on wider price perception

*“There are so many layers in the concession model that it is hard to bring down pricing, but **investments could be made on basic items** to set expectations differently”*

Heinemann



Deliver additional **value through service**, leveraging the trained sales employees to demonstrate the value of the range

*“It hurts us when you see a bottle of water \$5 and a hamburger is \$25...it’s hard to get them through the door after that and our **salesforce works hard to break down these barriers**”*

International Shoppes



Work for the price premium by offering an **elevated experience**, whether through choice, speed, convenience or seamlessness

*“Consumers are becoming more **experiential and want choice**...we know this has been the long term trend and the US still has a way to go”*

Heathrow



Deliver value through **uniqueness of products** and range, with travel exclusives

*“We’ve been working with an exclusive cult brand to deliver **travel exclusives that are so desirable** the customer would want to purchase an airline ticket to be able to access”*

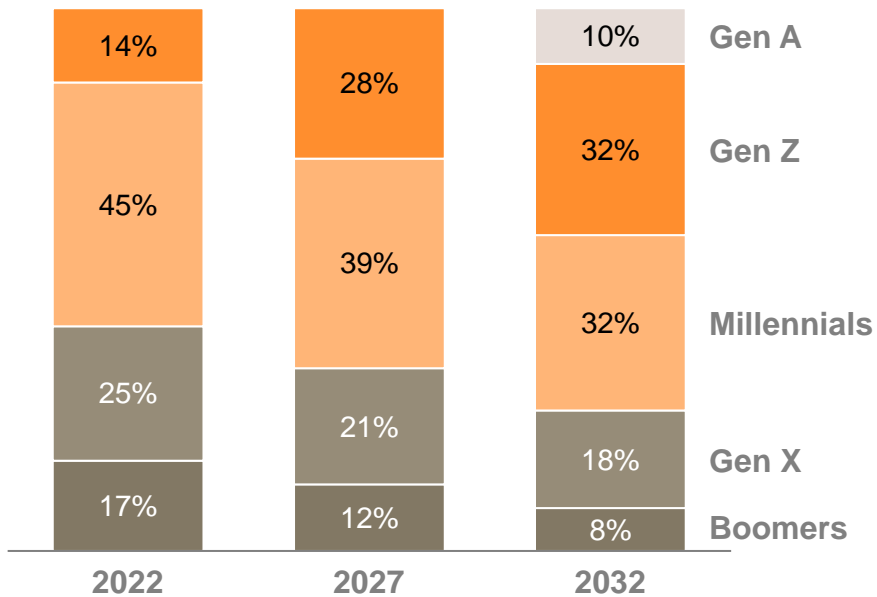
High Snobity / Gate Zero

We also need to acknowledge the needs of the future traveler are different...

2

In 5 years, the share of air traffic from Gen Z will **double** making it critical to design a **relevant retail offer**

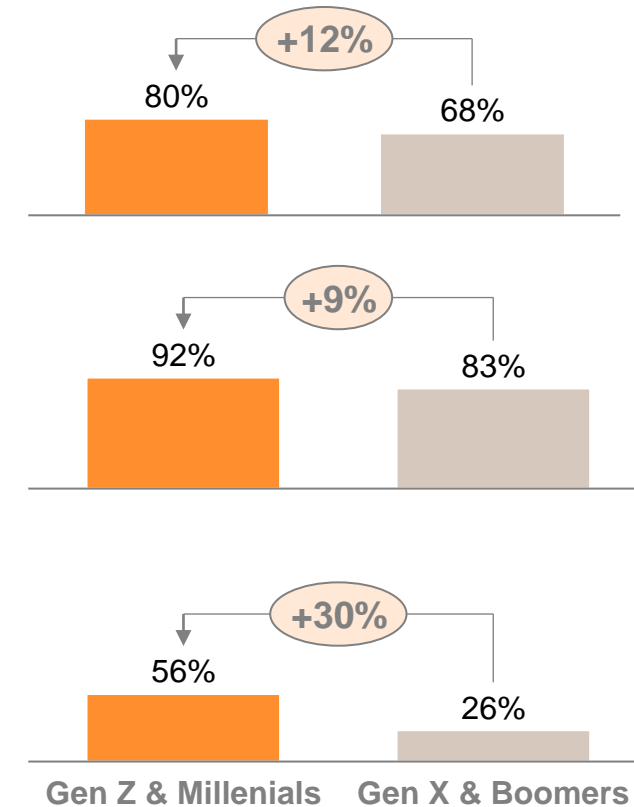
Share of US Air Passengers by Generation¹ (%)



They want Healthier grab'n'go F&B options

Are more likely to shop if offered a wider selection of brands

Are more likely to engage in wellness services in airports



“Airports are super relevant retail destinations for young consumers, but there is a **lack of bespoke and curated products**”

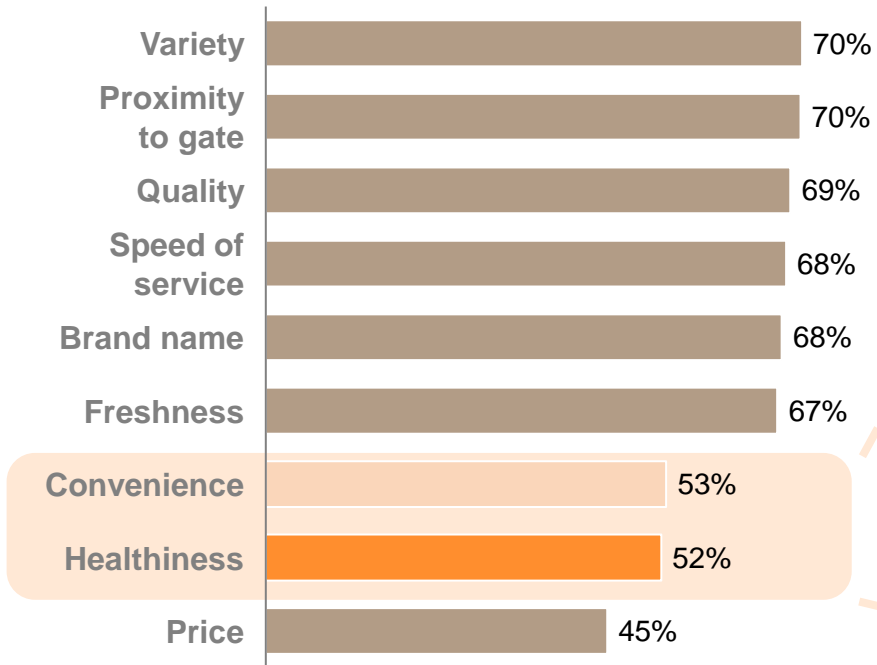
High Snobiety / Gate Zero



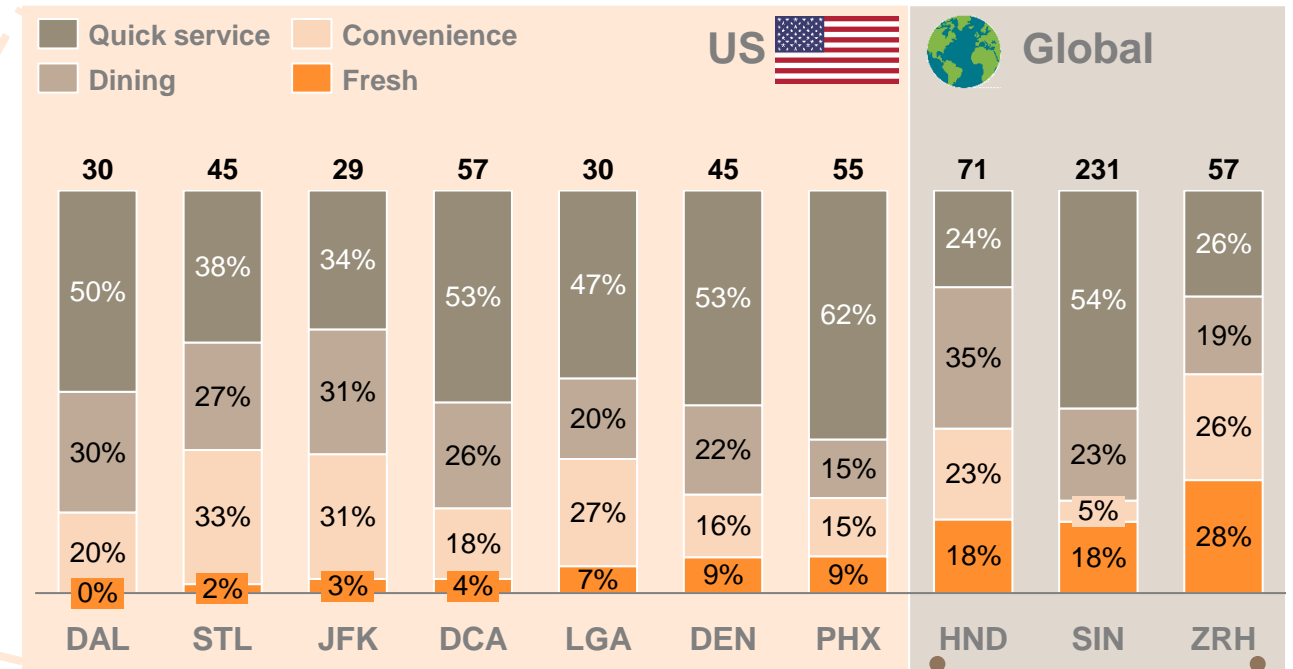
...the future traveler is much more focused on convenient and healthier F&B options...where global leaders set a strong example

2

Satisfaction With Current Offer (% Guests)



Number of F&B Outlets by Type



Ranked in global top 5 for customer experience¹

*"We need to adapt with finer dining, **healthy options**, contemporary brands...and **alleviate stress** when travelling with simple convenience" - JFK*

*"East and West coast airports are definitely **ready for Pret or Sweetgreen**...it'll will be a journey for other regions though" - JFK*



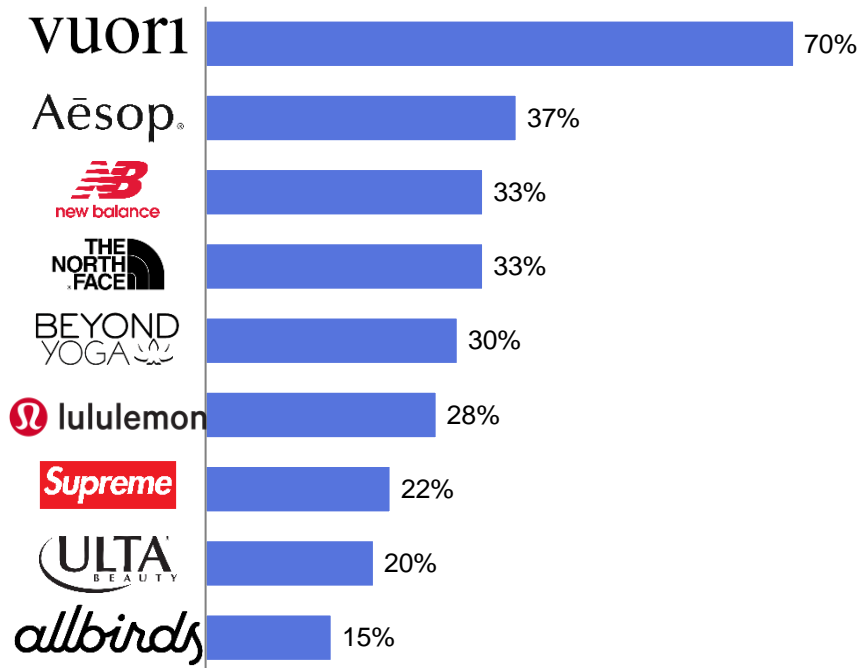
1. From Conde Nast's 2022 Reader's Choice Awards
Source: OC&C Survey, Interviews, OC&C analysis

2. Survey Questions: "Please rate your satisfaction with the food and drinks at {X} airport on your last trip against the below criteria"

A curated range of buzzworthy brands should drive engagement, and multi-brand concepts can encourage more brands to enter travel retail

3

Annual Sales Growth of Select 'Buzzworthy' Brands (2021-22)



The current airport retail landscape largely excludes the most popular, rapidly growing brands

“The mix of brands is tired, many have been around for years but aren’t meeting the needs of passengers”

Heinemann

“Bringing more contemporary, trendy brands to airports is a fruitful opportunity (e.g. Supreme, sports apparel, gaming)”

JFK

Case Study: High Snobiety | Gate Zero

High Snobiety has brought in **20 brands new to travel retail**, including ACNE studios, Commes des Garçons and Aesop, into an innovative multi-brand store, starting in Zurich

Initial performance has been very **successful**, with 70% customers being **under 30 years old**, delivering on their intention to be able to “speak better to younger consumers”

“It helped solve the need for curation, there's nothing in the market like this”

“Zurich understood the vision and were willing to invest... we've had lots of inbound from airports that are interested”

High Snobiety

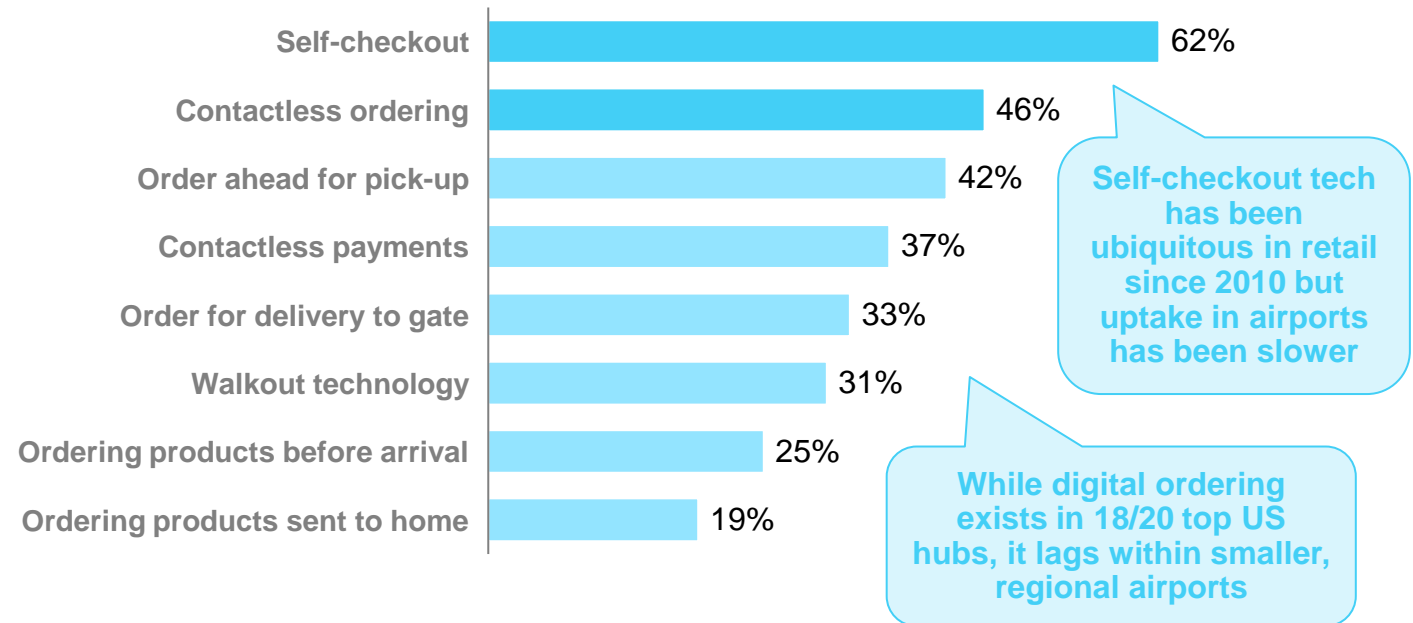
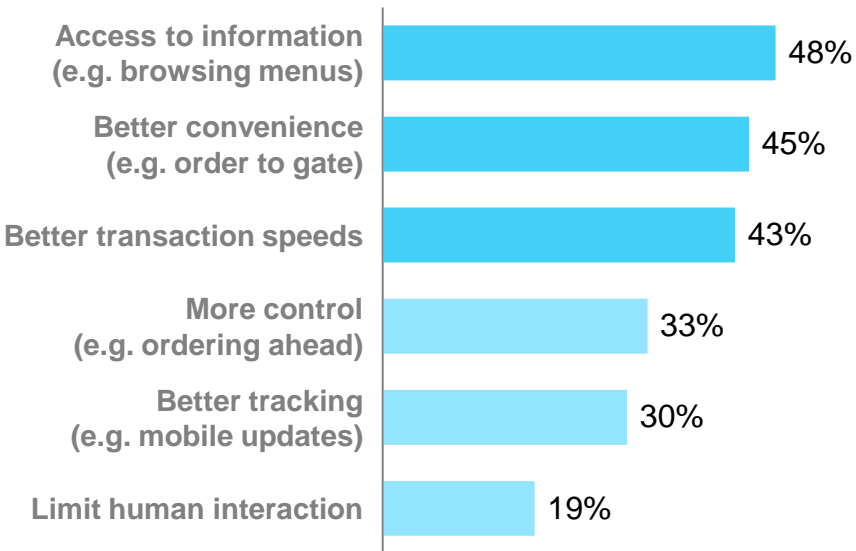


Travelers want a convenient and seamless experience, where technology mirrors their everyday retailing experience

4

Passengers want tech in travel retail to provide **information, convenience or speed...**

...therefore the tools most in demand are what they typically see in **everyday retailing**



*“Everyone is now more digitally savvy and wants **travel to feel like everyday retail**”*

Heathrow

*“We’ll see more self-checkout, it’s **line busting and drives the customer experience** – same with mobile ordering and mobile payments”*

Paradies Lagardere



Partner with digital leaders to deliver the technology that really uplifts the customer experience - there's no need to reinvent the wheel here

4

Elevating the Customer Experience

Unproven / Not Resonating with Customers



get **REEF** + **RDU** Raleigh & Durham Airport

REEF Virtual Food Hall widens choice and allows more brand refresh, offering 9 restaurants from a shared ghost kitchen

Hudson + **amazon**
A *SAP* Company

Just Walk Out Technology enables a smooth purchase journey while reducing staffing needs

Inflyter + **JFK** JOHN F. KENNEDY INTERNATIONAL AIRPORT

Inflyter provided the platform for JFK's digital duty free marketplace, traction is in early stages

Stellar + **BuzzFeed**

Buzz Feed News leverages the media company's pulse on hot trends to elevate the merchandizing in convenience stores

Google + **Zurich Airport**

'Live View' acts like google maps to help customers get to where they want easily, be it eg the gate, food or shops

Grab + **MIA** MIAMI INTERNATIONAL AIRPORT

MIA2GO powered by Grab allows customers to place pick-up orders at restaurants, though takes time to build up trust and scale

"Self-serve frees up sales space, makes units more productive, and can lower opex for satellite stores...a better experience than vending"

Heathrow

"We don't have the scale to develop a proprietary tech, we are looking for developers to come to us with something"

International Shoppes

"We launched an e-commerce platform for duty free shops with Inflyter, though we are waiting for adoption to pick up"

JFK



F&B and retail is critical to delivering a positive airport experience, and there are ways to work together which can unlock more opportunity

5

While there are limited examples of profit share and joint venture, there are other ways to unlock financial value without fully overturning the economic model

Examples of JVs Globally



Co-Invest in Technology and Infrastructure to set Concessions up for success

“Larger airports especially have begun upgrading their infrastructure which reduces capex for operators”

Paradies Lagardere  Hartsfield-Jackson Atlanta International Airport®




Be open to investing in trial and innovation to ‘test and learn’ new concepts and improve ROI expectations

“They [airport] understood the vision and were willing to invest in a trial in order to deliver a better customer proposition...has turned into two permanent locations” – High Snobiety



Rethink regulatory hurdles, to empower businesses and widen the pool of access to exciting brands

The regulatory burden is high, certain airports have opened up the pool of brands that can enter by empower 100% ACDBE operated brands to operate, unlocking new brands and still achieving the 30% target

 UNIBAIL-RODAMCO-WESTFIELD AIRPORTS



We'd like to leave you with some questions...

Airports



- How are you encouraging greater levels of **trial and innovation** in your offer?
- What are the **new operating models** and **digital partnerships** you should be prioritizing, and what does the journey to bringing these operators in look like?
- How can you play a bigger part in the **ongoing conversation** and offer development?

Operators



- How are you **communicating value** to customers? What are the **tactical** ways you can improve perception as well as engage more deeply with customers through **service and experience**?
- What **brands** are you prioritizing and how are you thinking about the **pitch**?
- How much are you investing in **simplifying the experience** and **alleviating uncertainty** through new technology?

Please get in touch if you would like to discuss in more detail!



NEWMARK



Rebecca Henshaw
Associate Partner
Rebecca.Henshaw@occstrategy.com
T: +1 212 301 0754
M: +1 929 276 8441



Nadine Heubel
Senior Managing Director
NadineHeubel@nrmk.co.uk
M: +1-305-606-3308



Coye Nokes
Partner
Coye.Nokes@occstrategy.com
T: +1 212 301 0754
M: +1 646 369 5890



Simon Black
Executive Managing Director
simonblack@nrmk.co.uk
T: +44 20 7462 9136
M: +44 7391 415 938



David Sinclair
Partner
David.Sinclair@occstrategy.com
T: +44 20 7010 8117
M: +44 7834 146 876



Tom Charlick
Partner
Tom.Charlick@occstrategy.com
T: +44 20 7010 8117
M: +44 7812 072 863

